

The Bank of Ghana Halts Monetary Policy Rate; remain unchanged at 19%

The Monetary Policy Committee (“MPC” or “the Committee”) of the Bank of Ghana (BoG) has maintained the benchmark interest rate at 19% after two (2) successive hikes, citing deceleration in the rate of inflation and concerns for growth. This means cost of borrowing will remain relatively same at least for the next two and half months. The Committee decided to halt the policy rate hikes and observe the impact of the recent monetary policy measures. The MPC’s decision to maintain the policy rate is because the rising inflation rate has started responding to the last policy rate increase, hence the need to monitor the situation further, before any policy action. The Committee noted that inflation has persisted on an elevated path. The move to keep the base lending rate unchanged is expected to deal decisively with inflationary pressures to re-anchor expectations and help foster macroeconomic stability. The committee expected the macroeconomic framework that will underpin an agreed IMF supported programme would present a strong coordinated monetary and fiscal policy framework that would anchor stability and prevent a wage price spiral which will lead to inflation becoming more entrenched.

Economic activities grow at a slow pace

- ❖ Real GDP grew by 3.3% for the first quarter of 2022 as compared to 3.6% in the same period of 2021, and 7.0% in the fourth quarter of 2021. Similarly, non-oil GDP grew by 3.7%, down from 5.3% recorded for the comparative period in 2021. The deceleration in economic activity, was largely driven by slower activity in the services and agriculture sectors.
- ❖ Crude oil prices gained 56.7% on a year-to-date basis to settle at USD117.2 per barrel in June 2022 driven by limited capacity of OPEC+ to increase production as well as supply constraints from geopolitical tensions.
- ❖ On a year-to-date basis, gold prices rose by 2.6% to average USD1,837.1 per fine ounce amid global inflation concerns. Cocoa prices lost 2.2% to settle at USD2,428.38 per tonne due to concerns about weakening demand.

Inflation inched up beyond Medium Term Target Band

- ❖ Headline inflation surged from 23.6% in April 2022 to 27.6% in May 2022 and 23.6% in April 2022, and then further up to 29.8% in June. The increase came on the back of rising food prices, continued upward adjustments in ex-pump petroleum prices, transportation costs and currency depreciation.
- ❖ Core inflation measure, which excludes energy and utility, increased from 22.3% in April 2022 to 26.4% in May and further up to 28.4% in June. Weighted inflation expectations from businesses, banks, and consumers remained elevated in June 2022.

Summary of Government Fiscal Operations

- ❖ Provisional fiscal data indicated an overall budget deficit, on a cash basis of 5.0% of GDP for January to May 2022, compared to a target of 3.5% of GDP. Primary balance for the period was a deficit of 1.4% of GDP, against a deficit target of 0.2% of GDP.
- ❖ Total revenue and grants for the period amounted to GH¢29.5bn (5.9% of GDP), falling below the target of GH¢34.8bn (6.9% of GDP) mainly due to shortfalls from tax and non-tax sources. Total expenditure amounted to GH¢48.9bn (9.7% of GDP), below the target of GH¢51.8bn (10.3% of GDP).
- ❖ These developments impacted the stock of public debt which increased to GH¢393.4bn (78.3% of GDP) at the end of June 2022 compared with GH¢351.8bn (76.6% of GDP) recorded at the end of December 2021.

Summary of Development in the Banking Sector

- ❖ The weighted average interbank lending rate inched up to 19.92% in June 2022 from 12.68% recorded in December 2021.
- ❖ Total assets increased by 22.8% y/o/y to GH200.0bn as at June 2022. Asset quality has also recorded some improvements with a decline in the Non-Performing Loans (NPL) ratios compared with April 2022.
- ❖ Capital Adequacy Ratio stands at 19.4% in at end-June 2022, well above the 13.0% minimum regulatory benchmark.

Outlook

- ❖ The outlook is for continued tightened borrowing conditions and this underscores the need to reprioritize spending programmes within the available financing envelopes. The Committee noted the technical staff projection that GDP growth will likely slow down to within 3.7- 4.5% from the projection of 5.8% for 2022.
- ❖ The recent developments in the macro economy may pose some upside risks to the sector’s outlook and will require strong risk management by the industry and effective supervision.
- ❖ The next MPC meeting is scheduled for September 20 - 23, 2022. The meeting will conclude on Monday, September 26, 2022 with the announcement of the policy decision.

ANALYSTS

Godwin Kojo Odoom: Senior Research Analyst
gkodoom@sicbrokerage.com

Obed Owusu Sackey: Analyst
oosackey@sicbrokerage.com